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COUNTRY China

REPORT NO. [REDACTED]

SUBJECT Discussion on Mainland Economic Development

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1. If the Chinese Communist regime is satisfied to keep their activities within China, if they cease to cherish the ambition to dominate all Asia, I do not think that political environment will be much of an obstacle to their success. But if they lean on and tie to the USSR and are ambitious to dominate, I do not believe they will have a peaceful environment politically.
2. Question - You mean by that a tendency to get mixed up in Indo-China or Indonesia?
Answer - Yes, or in any other Asiatic country. Should they become ambitious in that manner they would have little environment for peaceful development. I am trying to estimate how much China's participation in the Korean war has cost the Communist regime. So far, I have not arrived at a statistical conclusion, but I am quite sure that the Korean war cost them very dearly; they could not continue much longer.
3. Question - In other words, you feel that one precludes the other? That if they expend their energy on external projects they will lack the energy and resources for internal progress?
Answer - Correct. In any case, I do not see how they can get away from an ever chaotic environment which they need to do, especially since promoting chaos is part of the Communist system. They want chaos in order to obscure the difficulties within the country.

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4. Question - Do you mean they are practicing a philosophy somewhat similar to one used by the Soviets: Hide your troubles at home by emphasizing worse ones elsewhere?
Answer - That is what I mean. China's interference in affairs outside the country is intended both to satisfy ambitions abroad and to minimize those at home through various means calculated to pacify and reduce interior troubles.
5. The biggest obstacle to development in China is lack of capital (capital goods) and technical know-how. I believe that through the factor of labor intensification, China could accumulate a certain amount of capital, but I am fully convinced that the amount of capital formation through the factor of labor intensification will never be sufficient to meet China's needs. I say this because the margin between production and consumption is very small. You can tighten your belt yes, but there is a limit.
6. Consider only one important thing China might accomplish through labor intensification: Irrigation. With irrigation work through large and small projects China could increase agricultural production to a certain extent, but that's also limited; China's agriculture has been extremely enhanced already. The per acre agricultural productivity in rice or wheat or any other grain crop is already higher than most countries except perhaps Japan, and there the difference is due to the fact that Japan has more capital for intensification of cultivation through more use of chemical fertilizer and through better seed collection. China's agricultural production per man is higher than in the US because it is more intensive in terms of labor.
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I don't think so. I know my country. They will be able to produce some, yes, but not much.
8. Question - You would say that even under the present circumstances, as of say 1954 in February, labor intensification is at its peak and that they are doing their utmost?
Answer - Yes, I believe they are doing their utmost.
9. Question - You are assuming that the utmost could be producing some capital?
Answer - It could be.
10. Question - And how about capital from abroad?
Answer - I do not think the Communist regime in China could get very much from the USSR. Whatever they get will have to be paid for with results of labor intensification in China. What China needs most in the way of capital is heavy machinery for development of mines, rolling stock for transportation, machinery for all sorts of industries such as textiles. It would be very interesting to analyze how much the USSR and its satellites in Europe could actually spare for China.

Question - You mean regardless of the factor of whether they would provide it?
Answer - Yes. I think they would if Communist China could pay them; not with paper money but with products.
11. The factor of capital is the real headache of the Communists in China. Communist China is very anxious to trade with Japan, perhaps as anxious as Japan is to trade with her. Japan could supply Communist China with certain kinds of capital goods in exchange for what Communist China could supply to Japan, such as commercial salt that is plentiful because of the long coastline, and which Japan needs very badly. For China to supply Japan with commercial salt would not cost China too much, and if China

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and Japan should have trade relations, that would be quite a help to Communist China. That's the reason why I am against it -- very much against it. Japan, at the same time, is very anxious and I don't see how Japan can exist without trade relations with Communist China.

12. The same is true with technical know-how. China doesn't have sufficient technicians, and the kind of training the Communist regime in China uses for technicians is absolutely pathetic, not adequate in quality, although quantitatively not bad. The big movement is for supervisors not technicians. The Communist regime is emphasizing that the whole educational system today for training the lower grades, the foreman, the immediate supervisor, and not scientific or engineering technicians. And this indicates the conception on the part of the Communist leaders in China that industrial development requires no more than foremen or immediate supervisors. They don't seem to appreciate science and engineering in the real sense of the term. Well, they may expect to get, and possibly they may already have, higher technicians, but how many of those the USSR can supply is a moot point. The Chinese educational system is certainly not adapted to produce their own. In short, the whole system is an imposition from above on the mass of people.
13. Consider the degree and manner in which Communist China differs from her predecessors as to national leadership. In respect to leadership (I don't want to be quoted), I do feel the Communist regime in China appears to show more leadership than its predecessors.

Question - You don't like it but you fear it is so?

Answer - Yes. Their attempts to run the country, although not really political, but in a sense more based on a power structure of force, seems to be more efficient and realistic. How long that impression will last I don't know. As to political environment: I do not think the Communist regime in China could surpass the Nationalists very successfully.

14. However, there is one fact I feel very confident about in connection with progress in China today. That is the fight against factors necessary to true development, such as the factor of cultural pride, of social inertia, of family loyalty. These cultural factors are important to the problem because they strike at the very foundations of the system, which provides that whatever development comes economically is for totalitarian control, for power, and not for the economic welfare. I do not consider industrial development in the USSR for the people's welfare. Communist China is doing the same. How far it can go I don't know. I believe Chinese industry will concentrate on heavy industry and there isn't too much to expect in that respect because China lacks enough raw materials; although there is sufficient for a certain amount of the development China needs.
15. We have plenty of coal, but our coal is not all of high quality, for coking purposes and our iron ore is of very poor quality. Furthermore, the distance between our coal mines and iron mines is too great. We do not have much copper, and very little petroleum. We do have considerable antimony and tungsten.
16. Availability of iron and steel is very essential to the power structure. Development will probably be emphasized in the west, with primary emphasis on transportation. There will be some heavy industry in that region. There must be a steel source. There is a very good spot on the borderland for a steel industry, if transportation is developed. Very good iron ore, good coal and above all good water. I am sure the Communist regime will make an effort to develop this region.
17. Of course, there will be exploration in search of more petroleum and the rare minerals. There will be industrial development in Shansi, where there is high grade coal and they can get iron. These three pre-requisites: coal, iron and water, are the ones that will make for development in the western areas.

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18. Question - To what extent would a population explosion influence the development of Communist China.

Answer - The Communist regime would not pay any attention to it. They don't care. If they have too many people they can find a way to get rid of them. To them that is no question because their aim is for control, not welfare. You see, if you raise the standard of living and decrease the mortality rate, you will also increase the fertility rate, so you would be, relatively speaking, right where you began. From the point of view of economics, I see no way out for China except, first, intensification of agriculture; Second, diversification of production so that part of the farming population would be channeled into new industries. So far, production is confined pretty much to agriculture, so that they need other means of endeavor. But the Communist regime is not thinking along these lines. They are making an effort to pacify the masses and tighten control through cooperative farming. This seems to be their very important objective for 1953: To control the people.

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